

**Communications
Workers of America**
AFL-CIO, CLC

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Washington, D.C. 20001-2797
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June 17, 1998

Ms. Magalie Roman Salas, Secretary
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

RECEIVED

JUN 17 1998

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

RE: Ex Parte Notice
CC Docket No. 97-211 (Applications of WorldCom and MCI for Transfer of Control of MCI to WorldCom)

Dear Ms. Salas:

On June 16, 1998, Debbie Goldman and Sumanta Ray, CWA Research Economists, met with Michelle Carey, Michael Pryor, and Jennifer Fabian of the Policy and Program Planning Division of the Common Carrier Bureau. We discussed financial evidence from the pro-forma financial statements that indicates that the merged company will not compete in the residential local exchange market. We also discussed remedial solutions to the anti-competitive effects of the merger in the Internet market.

I attach the following hand-outs used in our discussion: 1) Financial Ratios; 2) Exhibit 99.3 from WorldCom SEC Form 8-K, Nov. 9, 1997; 3) briefing paper on MCI Proposal to Sell Its Internet Operations to Cable&Wireless.

In accordance to the Commission's rules, I submit two copies of this notice and of the hand-outs.

Sincerely,

Debbie Goldman

Debbie Goldman
Research Economist

cc: Michelle Carey
Michael Pryor
Jennifer Fabian

Enclosure

No. of Copies rec'd
LIST A B C D E

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Table 1.

WORLDCOM PRO FORMA CONDENSED COMBINED BALANCE SHEET**As of September 30, 1997****(In millions)**

	(A)	(B)	(C)	(D)	(E)	(F)
	<u>MCI Historical</u>	<u>WorldCom Historical</u>	<u>Pro Forma Adjustments</u>	<u>MCI-WorldCom Pro Forma Combined</u>	<u>Revised Synergy Adjustments</u>	<u>MCI-WorldCom Pro Forma Combined w/Revised Synergies</u>
Current Assets	\$ 4,603	\$ 1,625		\$ 6,228	\$ -	\$ 6,228
Plant, Property and Equipment (PP&E)	\$ 13,783	\$ 5,419	\$ (2,700)	\$ 16,502	\$ -	\$ 16,502
Goodwill and other intangibles, net	\$ 2,366	\$ 13,002	\$ 28,621	\$ 43,989	\$ -	\$ 43,989
Other assets	\$ 3,965	\$ 767				
Total Assets	\$ 24,717	\$ 20,813	\$ 25,921	\$ 71,451	\$ -	\$ 71,451
Current Liabilities	\$ 7,327	\$ 1,870		\$ 9,197	\$ -	\$ 9,197
Long Term Debt	\$ 3,282	\$ 5,349	\$ 7,446	\$ 16,077	\$ -	\$ 16,077
Shareholders' Equity	\$ 11,321	\$ 13,366	\$ 19,490	\$ 44,177	\$ -	\$ 44,177

Source: Columns (A) to (D), Amendment No. 3 to S-4, January 22, 1998

Columns (E) and (F), Adjustments made by CWA based on Estimated Revised Synergies

Table 2.

WORLDCOM PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS

For the Nine Months Ended September 30, 1997

(In millions)

	(A)	(B)	(C)	(D)	(E)	(F)
	<u>MCI Historical</u>	<u>WorldCom Historical</u>	<u>Pro Forma Adjustments</u>	<u>MCI-WorldCom Pro Forma Combined</u>	<u>Revised Synergy Adjustments</u>	<u>MCI-WorldCom Pro Forma Combined w/Revised Synergies</u>
Revenue	\$ 14,545	\$ 5,349	\$ (280)	\$ 19,614	\$ -	\$ 19,614
Operating expenses:						
Line Costs	\$ 8,090	\$ 2,806	\$ (280)	\$ 10,616	\$ (1,125)	\$ 9,491
Selling, general and administration	\$ 4,028	\$ 1,141	\$ -	\$ 5,169	\$ (750)	\$ 4,419
Depreciation & Amortization	\$ 1,475	\$ 682	\$ 537	\$ 2,281	\$ -	\$ 2,281
"Write Down" Expense			\$ (413)			
Operating Income	\$ 952	\$ 720	\$ (124)	\$ 1,548	\$ 1,875	\$ 3,423
Other Expenses						
Income Tax Provision	\$ 246	\$ 261	\$ 19	\$ 526	\$ 975	\$ 1,501
Interest Expense	\$ 174	\$ 235	\$ 363	\$ 772	\$ -	\$ 772
Other	\$ 139	\$ 3	\$ -	\$ 142	\$ -	\$ 142
Net Income	\$ 393	\$ 221	\$ (506)	\$ 108	\$ 900	\$ 1,008
EBIT	\$ 813	\$ 717	\$ (124)	\$ 1,406	\$ 1,875	\$ 3,281
EBITDA	\$ 2,288	\$ 1,399	\$ 413	\$ 3,687	\$ 1,875	\$ 5,562

Source: Columns (A) to (D), Amendment No. 3 to S-4, January 22, 1998

Columns (E) and (F), Adjustments made by CWA based on Estimated Revised Synergies

Table 3.

WORLDCOM IS PAYING A \$28.6 BILLION PREMIUM PRICE FOR MCI

WorldCom pays for MCI*	\$39.9 billion
MCI Book Value	<u>-\$11.3 billion</u>
Difference ("Premium")	\$28.6 billion

*Based on WorldCom stock price between \$29 and \$41 per share.

The premium price has actually increased since then because the price of WorldCom stock has increased above the high end of the "collar" set in the merger agreement of \$41 per share.

Table 4.

GOODWILL & INTANGIBLES DOMINATE THE NEW MCI-WORLDCOM

	Goodwill & Intangibles as % of Total Assets	Tangible Assets as % of Total Assets
MCI	9.6%	90.4%
Major Telcom Co. Avg.	11.1%	88.9%
WorldCom	62.5%	37.5%
New MCI – WorldCom	61.6%	38.4%

Source: WorldCom Joint Proxy Statement/Prospectus, Amendment No.. 3 to SEC Form S-4, January 22, 1998.

Table 5.

ASSET PRODUCTIVITY & INCOME GENERATING CAPACITY RATIOS			
	MCI	WorldCom	MCI-WorldCom with synergies
Total revenue/Total assets	58.9%	25.7%	27.5%
Net income/Total assets	1.6%	1.1%	1.4%
Operating income/Total assets	3.9%	3.5%	4.8%
Net income/PP&E	2.9%	4.1%	6.1%
EBITDA/Total Assets	9.3%	6.7%	7.8%

The combined MCI-WorldCom will be less efficient in generating revenue and income off its asset base.

Table 6.

WORKING CAPITAL & LIQUIDITY RATIOS			
	MCI	Worldcom	MCI-WorldCom with synergies
Working Capital (\$ millions)	\$(2,724)	\$(245)	\$(2,969)
Current Assets/Total Assets	18.6%	7.8%	8.7%
PP&E/Total Assets	55.8%	26.0%	23.1%

The combined MCI-WorldCom will have reduced capacity to finance capital expenditures with internal resources.

Table 7.

LEVERAGE & INTEREST COVERAGE RATIOS			
	MCI	WorldCom	MCI-WorldCom with synergies
Interest Coverage Ratios			
Operating Income/Interest	5.47	3.06	4.43
Net Income/Interest	2.26	0.94	1.31
EBITDA/Interest Expense	13.10	5.95	7.21
Fixed Charge Coverage (EBIT/Interest)	4.67	3.05	4.25
Leverage Ratios			
EBITDA/Debt	0.70	0.26	0.35
Debt to Equity	0.29	0.40	0.36
Debt to Tangible Assets	0.15	0.69	0.59

The combined MCI-WorldCom will be more highly leveraged and will have reduced ability to raise future debt and to cover interest payments.

Table 8.

PROFITABILITY & INCOME MARGIN RATIOS				
	MCI	WorldCom	MCI-WorldCom without synergies	MCI-WorldCom with synergies
Operating Income Margin	6.5%	13.5%	7.9%	17.5%
EBITDA Margin	15.7%	26.2%	18.8%	28.4%
Net Income Margin	2.7%	4.1%	0.6%	5.1%

The combined MCI-WorldCom's projected profit margins require draconian cost-cutting in capital expenditures and operating costs.

Table 9.

Key Measures

MCI
HistoricalWorldCom
HistoricalMCI-WorldCom
Pro Forma
CombinedMCI-WorldCom
Pro Forma Combined
w/Revised Synergies

Income Generating Capacity of Assets (Asset Productivity)

Total Revenue/Total Assets	0.588	0.257	0.275	-	0.275	-
Operating Income/Total Assets	0.039	0.035	0.022	-	0.048	+
Net Income/Total Assets	0.016	0.011	0.002	-	0.014	-
EBITDA/Total Assets	0.093	0.067	0.052	-	0.078	-
Net Income/PP&E	0.029	0.041	0.007	-	0.061	+

Working Capital & Liquidity

Working Capital	-\$2,724	-\$245	-\$2,969	-	-\$2,969	-
PP&E/Total Assets	0.558	0.260	0.231	-	0.231	-
Current Assets/Total Assets	0.186	0.078	0.087	-	0.087	-

Leverage and Interest Coverage

Operating Income/Interest	5.471	3.064	2.005	-	4.434	-
Net Income/Interest	2.259	0.940	0.140	-	1.306	-
EBITDA/Interest Expense	13.149	5.953	4.776	-	7.205	-
Fixed Charge Coverage (EBIT/Interest)	4.672	3.051	1.821	-	4.250	-
EBITDA/Debt	0.697	0.262	0.229	-	0.346	-
Debt to Equity	0.290	0.400	0.364	-	0.364	-
Debt to Tangible Assets	0.147	0.685	0.585	-	0.585	-

Profitability and Income Margins

Operating Income Margin	0.065	0.135	0.079	+	0.175	+
EBITDA Margin	0.157	0.262	0.188	+	0.284	+
Net Income Margin	0.027	0.041	0.006	-	0.051	+



The MCI Proposal to Sell Its Internet Operations to Cable And Wireless is Only a Partial Divestiture

On May 28, 1998, in response to U.S. and European regulators' concerns about the anti-competitive impact of the proposed MCI/WorldCom merger on the Internet market, MCI announced plans to sell a portion of its MCIinternet assets to Cable and Wireless for \$625 million. Does this sale represent a complete divestiture of MCIinternet, the world's largest Internet network provider?

We can answer this question by comparing the MCIinternet sale to Cable and Wireless with the 1996 MFS (now a part of WorldCom) purchase of UUNet, the world's second largest Internet network provider. Two years ago, MFS purchased UUNET for \$2.2 billion. Why would MCI sell off its Internet business today for only one-fourth the purchase price paid two years ago by MFS for a smaller Internet company? The answer is that MCI is not divesting its key Internet resources.

This fact can be demonstrated in two ways; first, by comparing the price to revenue valuation multiple for the two deals; and second, by comparing the assets that are included in the two deals.

Price/Revenue Multiple of MCIinternet Deal is One-Fourth the Value of the UUNet Deal

A price to revenue valuation method is a standard analytic tool that investment bankers use to calculate the value of an asset. The price to revenue multiple for the 1996 MFS purchase of UUNet is 11.2. The MCI sale of Cable and Wireless yields a price to revenue multiple of only 2.8, which is only one-fourth the value of the UUNet deal.

Valuation of UUNet and MCIinternet Deals		
	1996 UUNet Deal	1998 MCIinternet Deal
Purchase Price	\$2.24 billion*	\$625 million
Internet Revenue	\$200.1 million	\$220 million
Price/Revenue Multiple	11.2	2.8
Source: UUNet Second Quarter, 1996 Financial Report; MFS SEC Form 10-K, 3/31/97; MCI SEC Form 8-K, 5/29/98. (The Internet revenue figures were annualized.)		
*UUNet price = \$2.1 billion purchase price plus \$.14 billion assumed liabilities		

If the MCI divestiture were indeed a spin-off of its entire Internet operations, one would expect a multiple in the same range as the UUNet sale. Thus, applying the UUNet 11.2 multiple to the MCI assets would yield a \$2.5 billion sale price for MCIInternet. It should be noted that this valuation factor does not include any adjustments for changes since 1996 -- a lifetime in Internet economics. Adjustments might be appropriate because 1) the scale of the MCIInternet customer base and infrastructure has greater value than the UUNet network; 2) Internet traffic has grown 600 percent over the past two years; and 3) the UUNet sale was two years ago, when Internet earnings projections were less secure.

MCIInternet Sale Does Not Include Many Key Internet Assets

The \$625 MCIInternet purchase price is so low because the divestiture is incomplete. MCI is not selling Cable and Wireless all of its Internet assets. This can be seen by comparing the description of Internet assets included in the MCIInternet and the UUNet deals, as reported to shareholders in company filings with the Securities and Exchange Commission (SEC).¹ These filings are required by law to disclose accurate information so that shareholders can accurately value companies.

The MCIInternet sale includes MCIInternet's physical assets and 1,300 ISP customers. However, the sale does not include residential and commercial customers, applications services, consulting services, Web server hosting, integration services, client software, network integration, training services, comprehensive range of Internet access options, intranet services, all sales and marketing employees, all customer service employees, all technical and engineering employees, all administrative employees, operations support systems, network operations centers, collocation facilities, and research and development. The table on the next page summarizes this list.

Conclusion

Only a complete divestiture of MCIInternet will resolve the Internet anti-competitive issues related to this merger, thereby effecting a permanent, stable transfer of customers. Only a complete divestiture will preserve today's market structure in which no one backbone network provider can set the terms and price of interconnection on the Internet through its dominant control of the customer base.

As we have demonstrated, the \$625 million MCIInternet sale to Cable and Wireless is not a complete divestiture of MCI's Internet assets. First, its price/revenue multiple of 2.8 is far too low to represent a complete divestiture, as can be seen by comparing it to the 11.2 multiple paid two years earlier for UUNet. Second, of the 22 Internet assets included in the UUNet sale, only two (physical assets and ISP customers) were included in the MCIInternet sale. Thus, the \$625 million MCIInternet deal fails the market test to remedy anti-competitive concerns.

¹ MCI Communications Corporation, SEC Form 8-K, May 29, 1998 and MFS Communications Company, SEC Form 10-K, March 31, 1997

Internet Assets Sold in UUNet and MCIinternet Deals		
Items Purchased	UUNET	MCIinternet
Physical assets	Yes	Yes
Comprehensive range of Internet access options	Yes	No
Internet applications services	Yes	No
Internet consulting services	Yes	No
Web server hosting	Yes	No
Integration services	Yes	No
Client software	Yes	No
Security products	Yes	No
Network integration	Yes	No
Training services	Yes	No
Residential customers (dial-up)	Yes	No
Commercial customers (dial-up and dedicated)	Yes	No
ISP Customers	Yes	Yes
Intranet services	Yes	No
All sales & marketing employees	Yes	No
All customer service employees	Yes	No
All technical & engineering employees	Yes	No
All administrative employees	Yes	No
Operations support systems	Yes	No (right to use)
Network operations centers	Yes	No
Collocation facilities	Yes	No (right to use)
Research and Development	Yes	No
Source: MCI Communications Corporation, SEC Form 8-K, May 29, 1998 and MFS Communications Company, SEC Form 10-K, March 31, 1997.		

June 9, 1998

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): November 9, 1997

WORLDCOM, INC.
(Exact Name of Registrant as Specified in its Charter)

Georgia	0-11258	58-1521612
(State or Other	(Commission File	(IRS Employer
Jurisdiction of	Number)	Identification Number)
Incorporation)		

515 East Amite Street
Jackson, Mississippi 39201-2702
(Address of Principal Executive Office)

Registrant's telephone number, including area code: (601) 360-8600

Exhibit No. 99.3

Analysts' Presentation Given on November 10, 1997

Operating Cost Savings

<TABLE>
<CAPTION>

Anticipated Annual Savings
(\$ in billions)

	1999		2002	
	Previous	Revised	Previous	Revised
<S>	<C>	<C>	<C>	<C>
Core SG&A	\$1.0	\$1.0	\$1.3	\$1.3
MCI Local Savings	\$0.7	\$0.5	\$1.5	\$1.2
Domestic Line Costs	\$0.6	\$0.6	\$1.3	\$1.8
International Line Costs	\$0.1	\$0.4	\$0.3	\$1.3
Total	\$2.4	\$2.5	\$4.4	\$5.6

:/TABLE>

2000
\$0.7

2001
\$0.9

Sub-Total: \$3.3 billion

Presentation contains forward-looking statements.
Actual results may vary.

PAGE> 26
Financial Highlights

Capital Expenditure Savings

TABLE>
CAPTION>

Anticipated Annual Savings
(\$ in billions)

	1999		2002	
	Previous	Revised	Previous	Revised
<S>	<C>	<C>	<C>	<C>
.D./Int'l/Internet	\$0.8	\$0.9	\$1.2	\$1.3
ocal	\$0.7	\$0.7	\$0.3	\$0.3
	--	\$0.4	--	\$0.4
Total	\$1.5	\$2.0	\$1.5	\$2.0

ABLE>

2000
\$0.515

2001
\$0.450

Sub-Total: \$2 billion

TOTAL: \$5.3 billion

Michael Pryor
Michelle Carey
Jennifer Fabian

Office Pol + Progs CCB